



Office of the City Manager
City of Frisco, Texas

Memorandum

To: Mayor and City Council

From: Henry J. Hill, Deputy City Manager
Pippa Couvillion, Environmental Services Manager

CC: George Purefoy, City Manager

Date: September 30, 2008

Re: Special Cost Adjustments for Waste Services - Community Waste Disposal and Champion Waste Services

Action Requested: Consider and act upon approval of a special cost adjustments for *Community Waste Disposal* (CWD) under contract for Residential Solid Waste, Recycling, Yard Waste and Debris Collection Services and *Champion Waste Services* under contract for Commercial Construction Debris Services to address increases in fuel and disposal costs.

Background Information: At your August 5 Council meeting, Council discussed the potential of a special fuel adjustment for CWD. Council had a number of questions for CWD as to the need for the fuel adjustment and the method by which it was being calculated.

CWD made the request to recover what it says is the impact of fuel price increases on its operating costs. They had asked for a per household increase of \$0.71 per month for "fuel recovery costs". The fuel increase is not specified in their contract.

CWD also requested \$0.04 per month for Residential Yard Waste services in accordance with contract provisions that allow for increased disposal rates borne by the company. This is due to increases since 2004 levied by the City of Plano/North Texas Municipal Water District at their composting facility at the Custer Road Transfer Station.

Following the August 5th meeting, we have been in further discussions with CWD regarding their request. In response to Council's questions we have also contacted the other firms providing service to the City IESI (Commercial Trash) and Champion (Commercial Construction Debris) to ask if they, too, would seek an increase due to fuel

costs. IESI responded that they would not seek an increase. Champion indicated they would like to see an increase. Further discussion then ensued with CWD and Champion over the methods and amounts by which such an increase should occur.

Another question Council raised was what would the cost savings be if the city reduced the recycling pick up schedule to every other week (as opposed to every week)? CWD has responded that it would be a \$0.63 per month per household savings. A crucial unknown in reducing the recycling service in this manner is the potential unintended consequences on the effectiveness of the recycling program. Frisco's program has been successful principally due to convenience - volume of cart and the frequency of servicing. This has resulted in significant reduction in the volume of trash disposed at the landfill, estimated at cost savings to the residents of approximately \$1,700,000 since commencement of single stream program.

The magnitude of escalation in diesel fuel costs was not anticipated at the commencement of the solid waste contracts. In view of this, many cities have awarded increases to their vendors to cover these unforeseen fuel changes.

After reviewing the information and considering a methodology, it is our opinion that the most consistent manner in which to address this would be to:

- *Determine the fuel portion of the rates charged at the beginning of the contracts.* For CWD this is 6.8% of their \$5.27 per household per month rate in 2004, or \$0.358 per household per month. For Champion, there are two rates for hauling (\$115.00 to the McKinney Landfill and \$125.00 to the Melissa 121 Regional Disposal Facility). Their fuel portion was 16.45 % per haul in 2006, or \$18.92 (McKinney) and \$20.56 (Melissa).
- *Take the average fuel cost for the year from the commencement of the contracts and use that as the base.* For CWD this is \$1.94/gallon (August 2004). For Champion it is \$2.67/gallon (February 2006). The per gallon costs are based on the Department of Energy's reported diesel prices for the Gulf Coast Region.
- *Compare those amounts to the current average fuel price from the beginning of 2008.* The 2008 average through September 29th is \$4.05. For CWD, this a 108.76% increase. For Champion, this is a 51.69% increase
- *Apply the resulting percentage change to the fuel portion of the rates – deducting any CPI increases previously granted* (CWD received the equivalent of \$0.047 per household per month. Champion did not receive any CPI increases). For CWD this results in a proposed increase of \$0.34 per household per month. For Champion it results in a haul increase of \$9.78 to McKinney and \$10.63 to Melissa.
- *Depending on monthly market conditions, this average fuel cost amount would be adjusted* either up or down until the term of contracts with CWD and Champion are completed in at the end of July, 2009.

The attached spreadsheets detail the calculations of the amounts described above.

CWD Impact:

Based on the current number of households and assuming the fuel cost change averages out to be the same through the balance of the contract, the expected cost of the CWD revisions would be \$132,600 (32,500 households x 12 months x \$0.34). CWD's contract for service with the City is estimated to cost \$2,613,976 for FY09 so the annualized increase is about 5.07%. Over the life of the contract with CWD, their total charges to us will be about \$10,600,000 (2004-2009) so the \$132,600 would be approximately 1.25%.

Note that the \$0.04 per household per month for the yard waste amounts to CWD will be an additional annualized cost of \$15,600.

Champion Impact

For Champion, the cost increase is on a per haul basis. An additional complication is that in December 2008, the McKinney Landfill will close and loads will have to go to Melissa. Therefore, there are two haul rates. We currently experience an average of 343 hauls per month. Between October 1 and the end of December we would expect 1029 hauls to McKinney at the increased amount of \$9.78 per haul. This is a total increase of \$10,063. For the balance of the contract year (January through July) we would expect 2,401 hauls to Melissa at the increased amount of \$10.63 per haul. This is a total increase of \$25,523. These added together are a total annualized increase of \$45,646. For FY09, we expect the Champion billed cost to the City to be \$655,977, so the annualized increase is about 6.96%. Over the life of the contract with Champion, their total charges to us will be about \$1,993,209 (2006-2009) so the \$45,646 would be approximately 2.3%

The fuel recovery amount for the residential services (trash and recycling) can be absorbed by the fund balance of the Environmental Services Fund. Therefore we are not recommending an increase in the residential service rates to cover the additional costs. However, the Commercial Construction Debris hauling charge increases should be passed along in the billing to the construction customers.

One issue that was mentioned by the CWD that they believed the cost of service to Frisco residents was far lower than surrounding communities and would not be sustainable in any future negotiation on a renewal or bid process for new contracts. They indicated they believe the true cost of the service was at least \$0.89 higher than current prices.

Alternatives: City Council could choose not to approve the increases.

Financial Considerations: Expected annualized increase in fuel cost by CWD is \$132,600 and by Champion is \$45,646. The annualized increase in for yard waste by CWD is \$15,600. Funding would come from existing fund balances in the

Environmental Services Fund for the residential and recycling increases. For the Commercial Construction Debris increases, the amount would be passed along to the construction customers.

Legal Review: The City Attorney's Office prepared the original contract

Supporting Documents: Calculation of adjustment sheets for CWD and Champion, Department of Energy Average Fuel Price History 2004-2008, and 2008 Department of Energy Fuel Prices, Calculation of Yard Waste increased costs.

Recommendation: Staff recommends approval of the requested fuel adjustment at \$0.34 per household per month (with further adjustments depending on fuel rates until the end of the contract) and \$0.04 household per month for Residential Yard Waste Services. Both the \$0.034 and the \$0.04 amounts would be effective retroactive to the August 1, 2008 billings. Also, staff recommends increases to Champion's haul rates of \$9.78 to McKinney and \$10.63 to Melissa (with further adjustments depending on fuel rates until the end of the contract) effective with October 1, 2008 billings.